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THE ECONOMIC ROUNDUP

A Monthly Review of Economic Developments

Prepared by

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Contents

	<u>Page</u>
SUMMARY.....	1
CONSUMER SPENDING ACCELERATES.....	2
APRIL: A GOOD START FOR THE SECOND QUARTER.....	2
FIRST QUARTER GNP REVISIONS AND CORPORATE PROFITS.....	6
SECULAR AND CYCLICAL TRENDS.....	7
FINANCIAL MARKETS.....	11

Summary

Data released in May showed considerable strength. Recent gains suggest that second quarter growth in real GNP will be more than twice last period's 2.5-percent annual rate. Inflation, which had been held to an exceptionally modest pace since last summer by flat food prices and falling oil prices, has picked up moderately.

- Industrial production, the composite indexes of leading and coincident indicators, personal income, consumer spending and confidence, employment and hours worked all easily exceeded their first quarter performance in April.
- April data and revisions for earlier months now show considerable strength in consumer purchases. Domestic auto sales and consumer debt have continued to grow. Business spending for capital equipment also appears to have turned around.
- Though first quarter growth was revised down, somewhat higher final sales and even heavier inventory liquidation than initially estimated will lead to more vigorous growth as inventories are realigned with rising demand. Corporate profits from current operations turned up sharply, reflecting increased sales and productivity gains.
- Recovery seems to be unfolding in a fairly typical fashion. Manufacturing, especially of consumer durables, and construction are rebounding much as from previous downturns. Services-producing sectors, which are less affected by recession, are showing correspondingly less acceleration with the business revival.

Private borrowing has picked up and Federal government financing, while easing somewhat in the first quarter remains very high. Total borrowing, however, is still moderate relative to GNP. Both short- and long-term rates have been essentially flat when viewed over the span of several months, though they have risen slightly in the last two weeks.

### Consumer Spending Accelerates

Data released last month now show revitalized consumer spending. A healthy April performance and marked upward revisions of earlier data should ease concerns that growth in spending has not matched production gains since late last year. The outlook for the current quarter and beyond is better than appeared earlier.

- Retail sales posted strong back-to-back advances of 1.7 percent and 1.6 percent in March and April. Sales at durables stores jumped 4.0 percent in April, with all major categories posting strong increases. Sales at nondurables stores, which had grown sluggishly in part because of gasoline price declines and food price moderation, rose 0.5 percent. (Some of this latter advance stemmed from the April 1st gasoline tax increase.)
- After remaining at about a 6-million unit annual rate from December to March, domestic auto sales accelerated to a 6.3-million unit rate in April and to a 6.5-million unit rate in the first twenty days of May. Automakers, in turn, are boosting assemblies, and production schedules now call for a 7.0-million unit annual rate in June and an 8.1-million unit rate in the third quarter.
- Consumer installment credit rose \$2.6 billion, or 0.8 percent, in March, its fourth large advance in 5 months. Though almost one-half of the gain stemmed from automotive credit, revolving and "other" credit posted large increases, probably reflecting improved confidence, higher earnings and more aggressive lending by banks experiencing strong deposit inflows.

### April: A Good Start For the Second Quarter

Widespread strength of April data suggests that second quarter real GNP growth will be more than twice last period's 2.5 percent rate.

	Percent Changes		
	<u>April/March</u>	<u>April/1983I</u>	<u>1983I/1982IV</u>
Leading Indicators	1.1	3.1	5.6
Coincident Indicators	1.0	1.3	1.3
Civilian Employment	0.4	0.4	0.0
Nonfarm Payrolls	0.3	0.4	0.2
Industrial Production	2.1	3.0	2.3
Personal Income	0.8	1.2	0.9
Disposable Income	1.0	1.3	1.0
Consumer Spending	1.0	1.5	1.1
Retail Sales	1.6	2.3	0.1

	Levels		
	<u>April</u>	<u>1983I</u>	<u>1982IV</u>
NAPM* Diffusion Index	57.1	52.3	38.7
Factory Workweek (hours)	40.1	39.5	38.9
Factory Overtime (hours)	3.0	2.4	2.3
Capacity Utilization, Manufacturing	71.1	69.1	67.6
Consumer Confidence Index (Conf. Board)	77.3	67.0	52.7
Consumer Sentiment Index (U. of Mich.)	89.1	75.3	72.5

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\*National Association of Purchasing Management

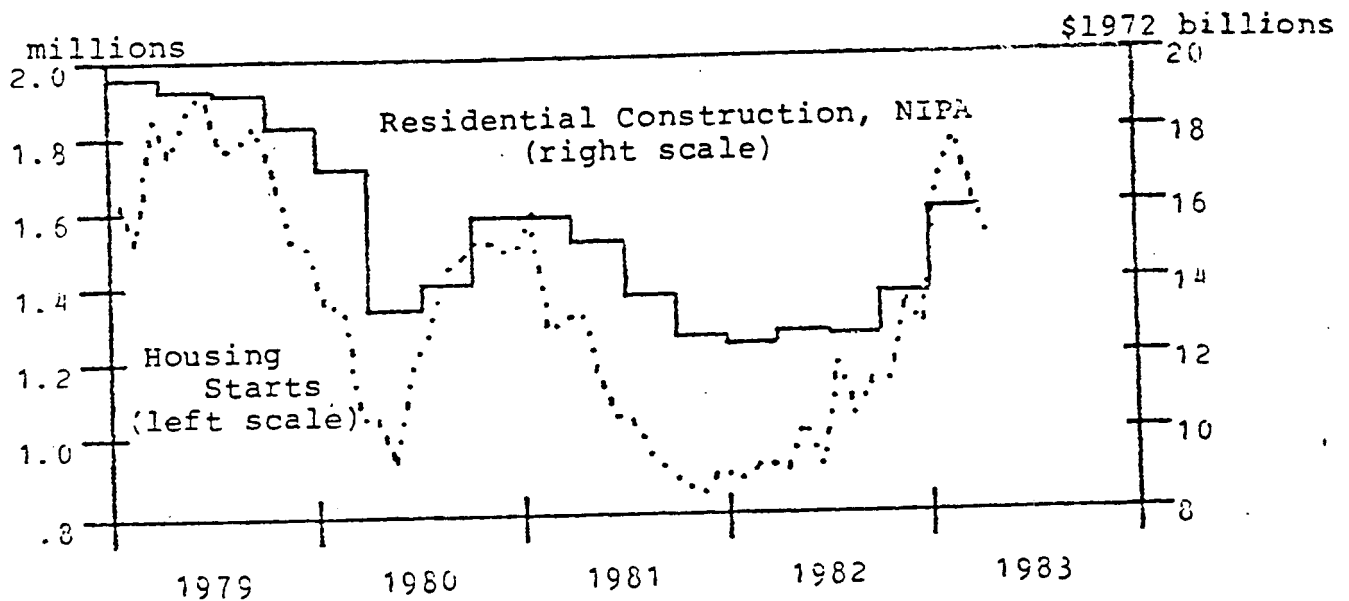
The second column of the above table shows that April employment, hours, industrial production and consumer spending already represent clear gains from their first quarter averages.

- Increases of 1.1 percent and 1.0 percent in the indexes of leading and coincident indicators put them 3.1 percent and 1.3 percent above their first quarter levels, respectively.

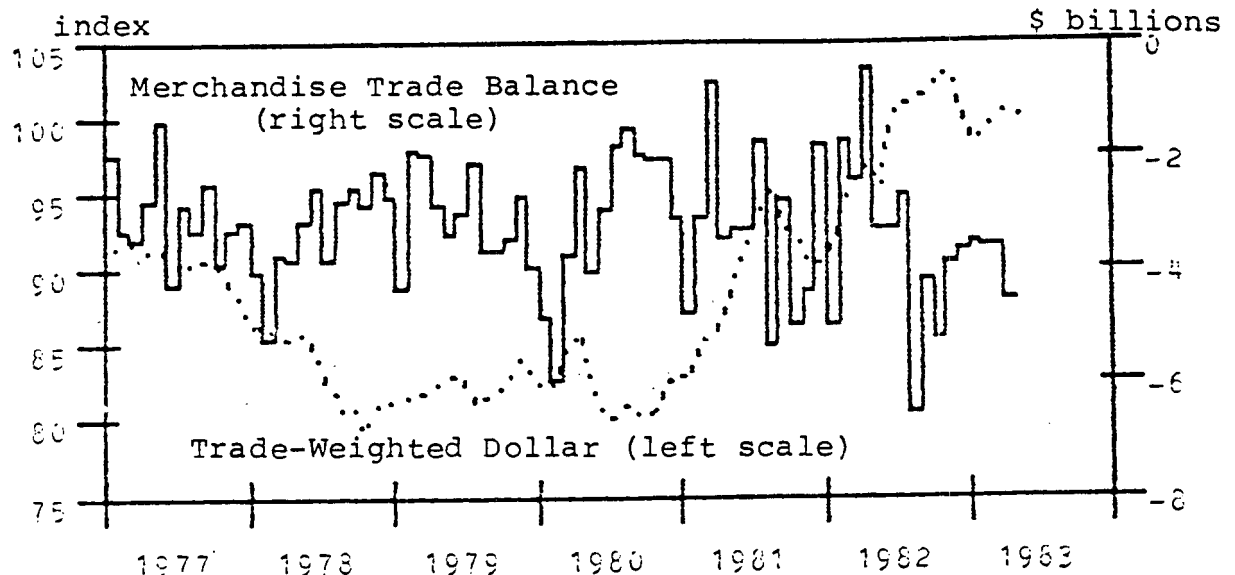
- Both the household and establishment measures of employment grew strongly, while February and March payrolls were revised up. The April payroll gain was about evenly split between durable manufacturing and services. The factory workweek and factory overtime increased 0.5 hour, while initial claims for unemployment insurance continued to fall. Aggregate hours in manufacturing jumped 2.1 percent.
- The 2.1-percent rise in industrial production was the largest one-month advance since August 1975, and production data for the first three months of the year were revised up. All major industrial categories except mining increased, led by strong gains for durable consumer goods, business equipment, defense goods and construction materials. As a result, capacity utilization in manufacturing rose to its best level in almost a year.
- Almost three-fourths of all industries reported payroll employment increases in April, up from 55 percent in January. The Federal Reserve also reports that industrial production has been rising in an increasing number of industries.
- Personal income surged 0.8 percent in April after a strong 0.6-percent advance in March. Improved wages and salaries, especially in manufacturing, accounted for most of the increases. Disposable personal income, reflecting 1982-83 tax cuts, rose 1.0 percent, to a level 1.3 percent above its first quarter average. The slow pace of inflation--a 0.8-percent annual rate for the CPI during the last six months--implies that these nominal gains are largely increases in real purchasing power.
- Reflecting the growth in incomes, consumption also surged in April to 1.5 percent above its first quarter average. Even if nominal spending were unchanged in May and June and the deflator increased at the first quarter rate, consumption spending would contribute about 2.5 percentage points to real GNP growth in the current period.
- Both measures of consumer attitudes have posted large increases in the last four months, and April levels were well above first quarter averages. Despite the large 0.8-percent March increase in consumer installment credit, debt use relative to income remains low because of healthy income growth.
- Though the saving rate in April was a low 5.7 percent, consumers appear willing to spend added take-home pay, and the mid-year tax cut will help to sustain the important broadening of spending which appears to be underway.

Apparent weaknesses in two areas do not significantly threaten near term real growth.

- Residential construction remains vigorous, even though housing starts fell 8.4 percent in April and 8.8 percent in March. These pullbacks from unusually high levels in January and February still leave housing starts at an annual rate of 1.5 million units, almost 20 percent above their pace late last year. April's healthy 6.5-percent gain in permits (the seventh increase in the last eight months) suggests that starts should turn up again, encouraged by the continued downward drift of mortgage interest rates. Even without any improvement in starts, residential construction will contribute to real growth this quarter as work continues on projects already initiated.



- The merchandise trade deficit swelled to \$4.6 billion in April, from an average of \$3.6 billion in the preceding 5 months, as imports grew and exports declined. Activity abroad has not yet shown the same strength as the domestic economy, and the dollar remains high, stifling exports and encouraging imports.



#### First Quarter GNP Revisions and Corporate Profits

Real GNP growth in the first quarter was revised down from a 3.1-percent annual rate to 2.5 percent. The rise in the fixed-weighted price index was unchanged at 3.2 percent. Deeper inventory cutting and slightly better final sales embodied in the revisions point to faster growth this quarter and over the balance of the year.

- Real inventory investment was revised down \$3.7 billion while non-residential fixed investment, government purchases and personal outlays for durables and services were revised up modestly. The trade balance was revised down because of a higher estimate of imports.



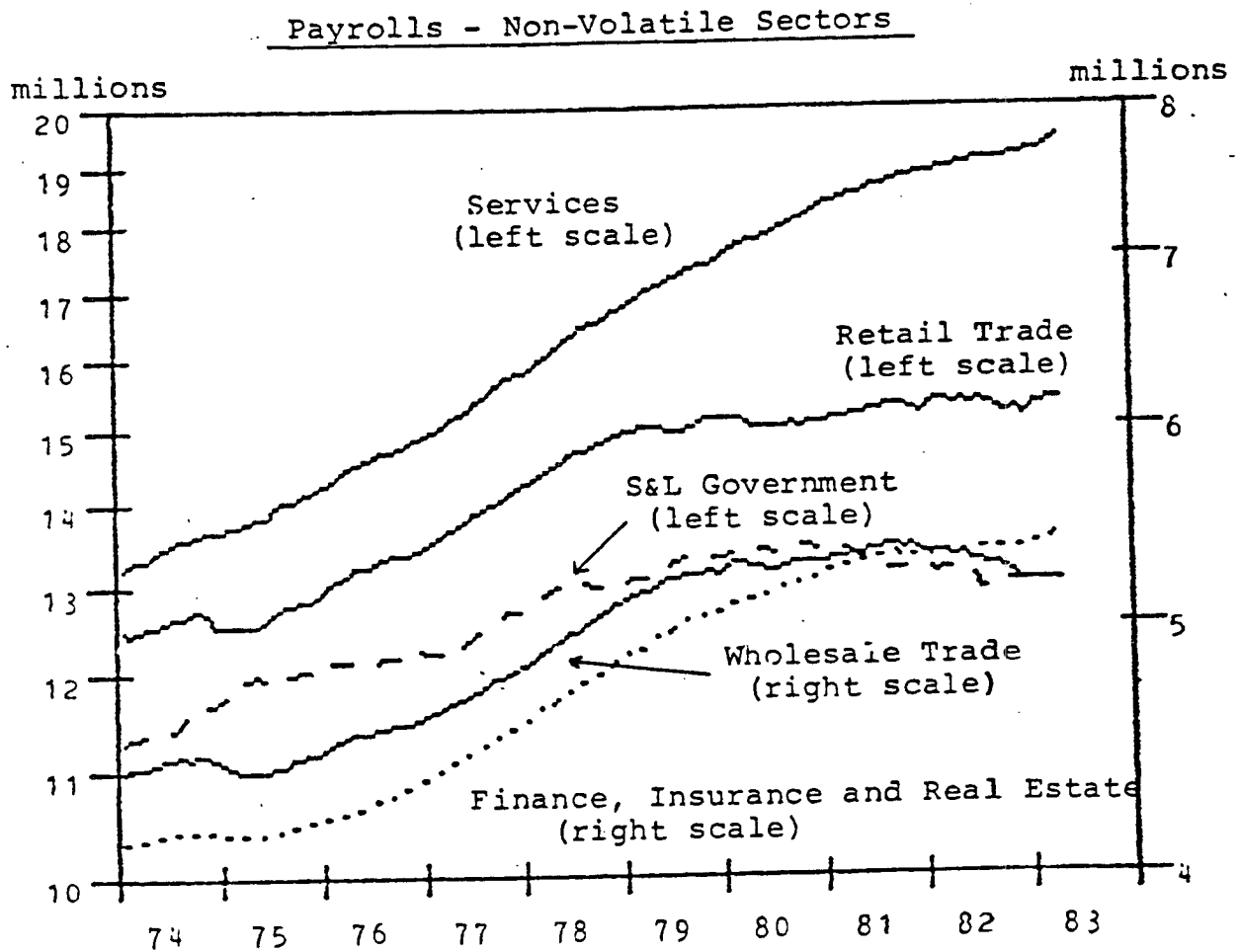
- Real final sales, excluding purchases by the Commodity Credit Corporation, grew at a 3.4-percent rate. The fact that stocks have already been cut more than estimated earlier implies a faster growth potential for later in the year when inventories are rebuilt to accommodate rising demand.
- Real spending for producers' durable equipment increased at a surprising 9.9-percent annual rate in the first quarter, primarily in purchases of computers, autos and trucks. The 1.8-percent gain in industrial production of business equipment in April, following a 0.9-percent rise the month before, and the back-to-back jumps in nondefense capital goods orders of 9.6 percent in April and 4.5 percent in March suggest that equipment spending may have turned its cyclical corner.

As businesses increased shipments and trimmed costs in the first quarter, profits rebounded smartly from their poor fourth quarter showing.

- Profits from current production rebounded 12.6 percent before taxes, following a 1.0-percent decline in the preceding period. The after-tax gain in operating profits was slightly less, 12.3 percent, reflecting the higher levies imposed by the Tax Equity and Fiscal Responsibility Act.
- Nonfinancial corporations, particularly manufacturers of durable goods, accounted for most of the first quarter profits climb. Earnings of motor vehicle firms posted the largest increase after a fourth-quarter loss; losses by primary metals producers narrowed; profits of nondurables manufacturers fell modestly, reflecting a large decline among petroleum firms; and earnings of non-manufacturing and financial corporations improved. Profits of savings and loan associations turned positive for the first time since the fourth quarter of 1980, accounting for most of the increase in financial sector profits.

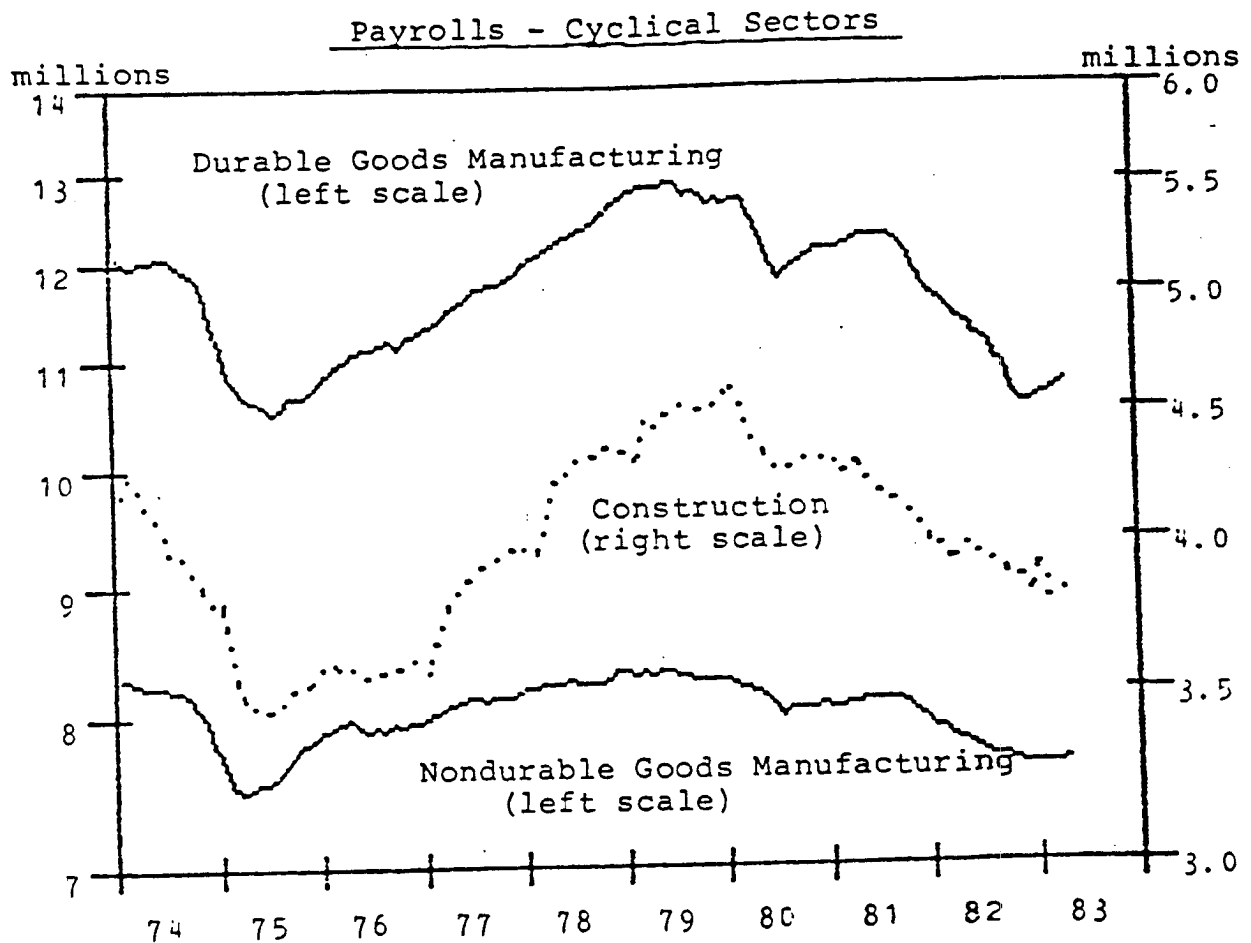
#### Secular and Cyclical Trends

The major economic sectors are not affected uniformly by the business cycle. Employment in services-producing sectors is affected relatively little.

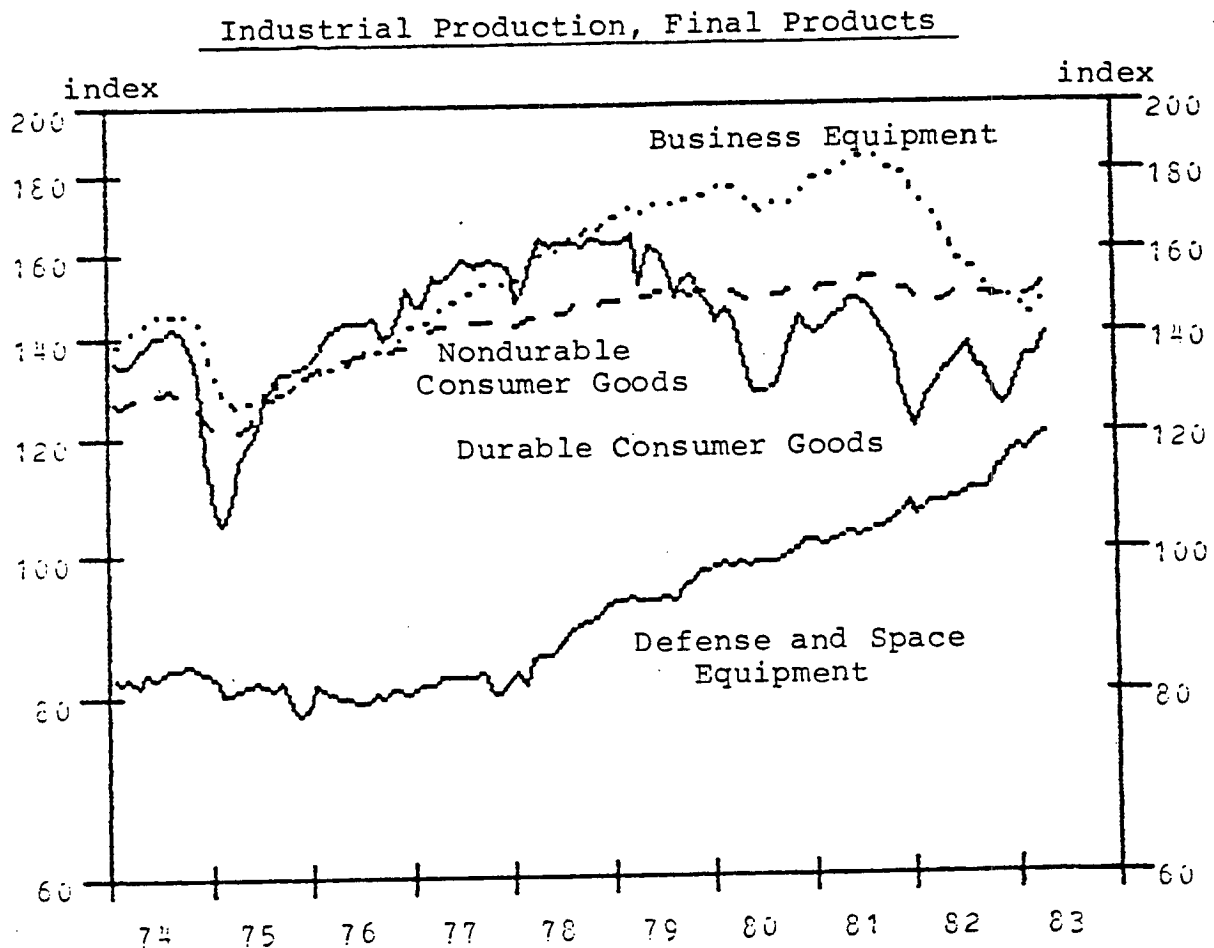


- Payroll employment in finance, insurance, real estate and other services has been rising fairly steadily throughout the post-war period. This growth slowed, but did not stop, over the past four years of sluggish economic performance. Payrolls in wholesale and retail trade flattened during this period.
- Payrolls of state and local governments have fallen since 1980 as a result of these jurisdictions' fiscal pressures, declining school enrollments, and reduced federal aid.

Employment in manufacturing and construction, however, has continued to experience pronounced cyclical changes.



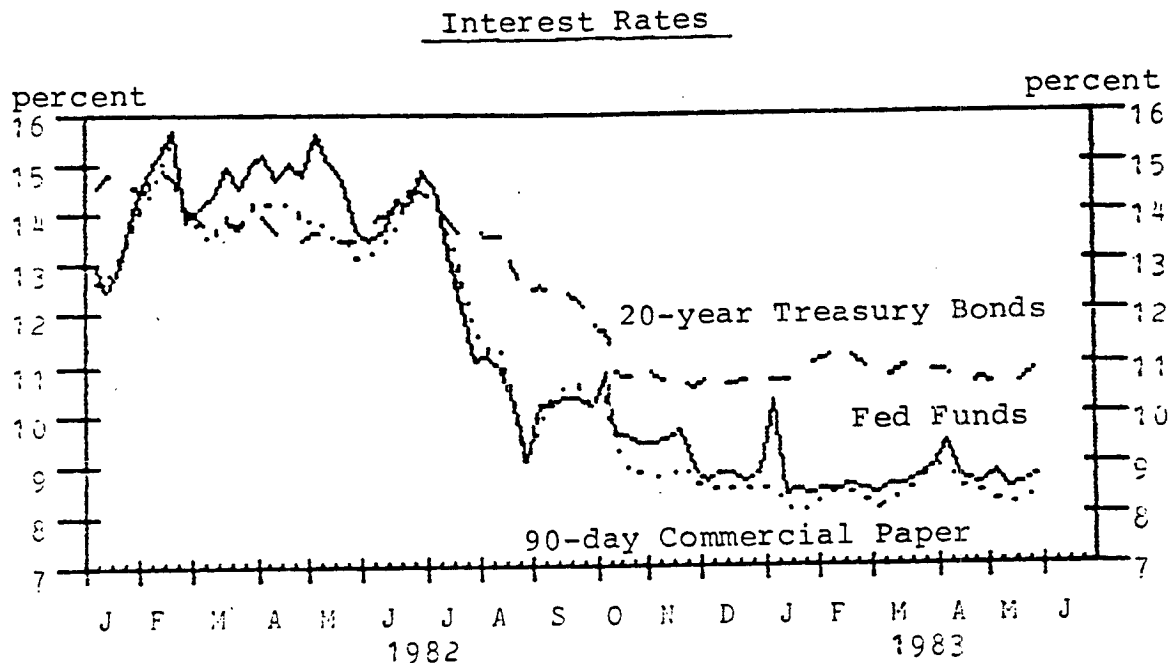
- Construction payrolls move approximately in tandem with the business cycle, as timing differences of residential (leading) and non-residential (lagging) employment tend to offset one another. As usually happens, housing recovered early in this cycle, while non-residential construction has been sluggish, reflecting excess capacity.
- Because durable goods purchases are more postponable than spending on nondurable goods or on services, the durables sector exhibits the most variation over the cycle. Just as they indicated early weakness at the beginning of this downturn, durables payrolls also have shown the unfolding strength of the recovery.



- The chart above indicates that most of the volatility within durables manufacturing stems from production of consumer durables. Business equipment production, though less volatile, is now showing signs of an upturn. Meanwhile, defense production, which began to grow in the late 1970's, has accelerated since late 1982 and is lending important support to the recovery in manufacturing.

Financial Markets

Although interest rates rose during the last two weeks, as shown in the chart below, both short and long rates have changed little since late last year.



- Growth of the monetary aggregates slowed in April and the broad measures, M2 and M3, are below their upper targets limits. The narrow measure, M1, grew 13.7 billion in the first three weeks of May and is within 2.3 billion of the upper limit for the fourth quarter of this year. The acceleration in the growth of M1, compared with the broader aggregates, in part reflects the introduction of new types of deposits. As a result, the Fed is giving more weight to the performance of M2 and M3.

Growth of the Monetary Aggregates  
(percent change, annual rate, seasonally adjusted)

	<u>M1</u>	<u>M2</u>	<u>M3</u>
January	10.2	34.2	12.7
February	24.9	26.8	14.1
March	17.1	11.7	8.5
April	-3.1	3.2	4.6

- o Corporate and household net borrowing rose in the first quarter, while Federal government borrowing slowed. However, corporate borrowing remains modest, about half of what it was a year ago, while government borrowing more than doubled in the third quarter of last year and has remained very high. Households sharply increased their mortgage and installment debt last quarter.
- o Federal government borrowing typically moderates during recoveries as receipts improve and expenditures for unemployment compensation ease. However, total public and private borrowing usually rises relative to GNP during expansions. Moreover, the Federal deficit is expected to remain large this time. The first quarter increase in total debt was 14.5 percent of GNP, up from 12.2 percent a year ago, as shown in the table below. This is a relatively moderate level compared to the peak of 18.6 percent in calendar 1978 and the most recent yearly low of 13.2 percent in 1975.

Net Credit Market Borrowing by Nonfinancial Sectors  
(\$ billions, seasonally adjusted annual rate)

	1982				1983
	1	2	3	4	1
U.S. Government	99.7	100.6	215.5	229.2	189.1
Households	82.1	94.0	80.8	97.3	125.5
Nonfinancial Corporations	106.2	85.1	109.0	33.5	65.2
Other Nonfinancial Business	33.6	48.1	25.0	28.1	25.3
State and Local Governments	26.4	55.8	33.4	67.5	52.4
Foreign	16.5	18.4	8.3	18.2	2.7
Total	364.5	402.0	472.0	473.8	460.2
Percent of GNP	12.2	13.2	15.3	15.2	14.5

- o Households usually supply a large portion of the funds borrowed in credit markets, about 70 percent over the last two decades. Deposits held by households, as estimated by the Federal Reserve, have grown dramatically in the last two quarters, in large part because of the popularity of the money market deposit accounts. All of the growth, however, represents a shift from other financial instruments, as total financial saving has remained relatively stable.

Funds Supplied to Credit Markets  
by Households  
(\$ billions, seasonally adjusted annual rate)

	1982				1983
	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>1</u>
Deposits and Currency	155.0	78.9	100.1	219.8	377.0
Money Market Mutual Funds	38.0	40.5	86.5	-66.4	-105.2
Credit Market Instruments	37.0	107.9	61.2	88.7	-49.8
Insurance and Pension Reserves	82.4	92.0	82.4	97.6	77.1
Total	312.6	319.3	330.2	339.7	299.1
Percent of Total Funds Supplied by All Sectors	85.8	79.4	70.0	71.7	65.0

ECONOMIC INDICATORS

	<u>Apr</u>	<u>Mar</u>	<u>Feb</u>	<u>Jan</u>	<u>Dec</u>	<u>Nov</u>
<u>General Indicators</u> (% change)						
Composite Index of Leading Indicators	1.1	2.2	1.4	3.0	1.0	0.5
Composite Index of Coincident Indicators	1.0	0.7	-0.4	1.4	-0.2	0.1
Composite Index of Lagging Indicators		-1.0	0.2	-1.2	-1.4	-1.9
NAPM Composite Diffusion Index (percent)	57.1	54.7	56.6	45.7	41.0	37.3
<u>Employment</u>						
Total Employment (change in 000's)	362	40	-43	12	-38	-48
Payroll Employment (change in 000's)	258	196	-161	355	-185	-127
Unemployment (change in 000's)	-53	-109	44	-590	130	330
Unemployment Rate (percent)	10.1	10.1	10.2	10.2	10.7	10.6
Initial Claims for Unemployment Insurance (000's)	470	479	478	507	531	616
Factory Workweek (hours)	40.1	39.6	39.1	39.8	38.9	38.9
<u>Production and Orders</u>						
Industrial Production (% change)	2.1	1.2	0.4	1.6	0.2	-0.6
Capacity Utilization, Manufacturing (%)	71.1	69.8	68.9	68.5	67.5	67.4
Auto Production (mil. units, AR)	5.9	5.5	6.4	5.9	5.4	4.4
Total New Orders (% change)	2.1	3.1	-3.1	3.5	3.1	0.2
Nondurable Goods (% change)	0.5	2.9	-0.3	-0.8	-0.4	-0.1
Durable Goods (% change)	3.8	3.2	-6.0	8.1	7.2	0.5
Nondefense Capital Goods (% change)	11.7	4.5	-6.5	4.2	-1.5	-0.7
<u>Inventories</u>						
Manufacturing and Trade Inventories (% change)		-1.1	0.2	-0.9	-0.6	-1.0
Inventory/Sales Ratio		1.45	1.50	1.48	1.52	1.53
Chg. in Auto Inventories (mil. units, AR)	-0.3	-0.3	0.6	0.3	-0.4	-2.2
<u>Prices and Wages</u>						
Consumer Price Index (% change)	0.6*	0.1*	-0.2*	0.2*	-0.3	0.0
Food (% change)	0.5	0.6	0.0	0.1	0.0	0.0
Energy (% change)	2.0	-0.9	-3.7	-2.5	0.3	0.8
All Other Items (% change)	0.4*	0.2*	0.4*	0.5*	-0.2	-0.1
<u>Producer Prices</u>						
Finished Goods (% change)	-0.1	-0.1	0.1	-1.2	0.3	0.6
Intermediate Goods (% change)	-0.2	-0.7	-0.1	-0.3	0.0	0.3
Crude Goods (% change)	1.4	0.6	0.6	-0.3	-0.2	1.0
Hourly Earnings Index (% change)	0.3	0.0	0.4	0.5	0.6	0.3
Hourly Earnings Index (12-month % change)	5.2	5.5	5.8	5.5	6.0	5.6

\* - revised methodology



ECONOMIC INDICATORS (cont'd)

	<u>Apr</u>	<u>Mar</u>	<u>Feb</u>	<u>Jan</u>	<u>Dec</u>	<u>Nov</u>
<u>Consumer Spending and Income</u>						
Personal Income (% change)	0.8	0.6	0.1	0.3	0.3	0.7
Wages and Salaries (% change)	0.8	0.6	-0.1	1.0	0.5	0.0
Disposable Personal Income (% change)	1.0	0.6	-0.1	0.5	0.2	0.8
Real Disposable Personal Income (% change)		0.3	-0.1	0.2	0.1	0.7
Personal Consumption Expenditures (% change)	1.0	0.8	-0.1	0.5	0.3	1.0
Real Personal Consumption Expenditures (% change)		0.5	-0.2	0.1	0.2	1.0
Retail Sales (% change)	1.6	1.7	-1.2	-0.2	0.0	1.7
Domestic New Car Sales (mil. of units, AR)	6.3	6.0	6.0	6.0	6.1	6.8
Saving Rate (percent)	5.7	5.8	5.9	5.9	5.9	6.0
Consumer Installment Credit (change, \$ millions)		2582	735	2725	2418	2015
Consumer Confidence Index (Conf. Board)	77.3	77.1	65.8	58.0	53.5	54.8
Consumer Buying Plans (Conf. Board)	77.2	87.9	75.8	71.9	75.2	80.5
Consumer Sentiment (U. Mich.)	89.1	80.8	74.6	70.4	71.9	72.1
<u>Construction</u>						
Real Construction Expenditures (% change)	0.2	-1.2	-2.9	5.1	-1.0	3.2
Private Residential (% change)	6.2	1.8	3.2	5.0	5.9	8.0
Private Non-residential (% change)	-2.9	-2.5	-4.0	0.3	-2.2	0.6
Public (% change)	-5.5	-4.3	-10.6	15.4	-9.3	1.5
New Home Sales (% change)	-4.0	0.8	-3.1	15.5	-2.9	13.3
Housing Starts (000's of units, AR)	1490	1627	1784	1694	1280	1361
Housing Starts (% change)	-8.4	-8.8	5.3	32.3	-6.0	19.2
Housing Permits (% change)	4.7	-0.8	2.2	9.1	8.1	6.3
Mortgage Interest Rates, FHLMC (percent)	12.78	12.80	13.04	13.31	13.62	13.83
<u>Money and Credit Conditions</u>						
M1 (% change)	-0.3	1.3	1.9	0.8	0.9	1.1
M2 (% change)	0.3	0.9	2.0	2.5	0.7	0.8
Federal Funds Rate (percent)	8.80	8.77	8.51	8.68	8.95	9.20
3-month Treasury Bills, Auction Rate (percent)	8.25	8.30	8.13	7.81	8.01	8.04
Bank Prime Rate (percent)	10.50	10.50	10.98	11.16	11.50	11.85
Treasury Bond Yields (percent)	10.19	10.34	10.60	10.37	10.33	10.18
Corporate Bond Yields (percent)	11.65	11.81	12.11	12.04	12.15	11.89
Commercial and Industrial Short Term Credit (% change)	-0.6	0.0	-0.2	1.0	-2.0	-1.9

ECONOMIC INDICATORS (cont'd)

	<u>Apr</u>	<u>Mar</u>	<u>Feb</u>	<u>Jan</u>	<u>Dec</u>	<u>Nov</u>	<u>Oct</u>
<u>International Trade</u>							
Merchandise Exports (\$ billions)	16.1	16.8	16.3	17.4	16.3	15.8	16.7
Merchandise Imports (\$ billions)	20.7	20.4	19.9	21.0	20.0	19.7	21.9
Trade Balance, c.i.f. (\$ billions)	-4.6	-3.6	-3.6	-3.6	-3.7	-3.9	-5.3
<u>National Accounts</u>							
	<u>1983</u>	<u>1982</u>				<u>1981</u>	
	<u>I</u>	<u>IV</u>	<u>III</u>	<u>II</u>	<u>I</u>	<u>IV</u>	<u>III</u>
Nominal GNP (% change, AR)	8.3	2.6	5.8	6.8	-1.0	3.0	11.4
Real GNP (% change, AR)	2.5	-1.1	0.7	2.1	-5.1	-5.3	2.2
Real Disposable Income (% Change, AR)	1.8	0.3	1.3	3.1	-1.9	1.2	4.8
Real Consumption (% change, AR)	2.6	4.5	0.6	2.5	2.5	-3.3	2.9
Real Nonresidential Fixed Investment (% change, AR)	5.6	-6.0	-7.6	-11.8	-5.0	0.6	9.3
Real Residential Fixed Investment (% change, AR)	79.6	39.3	-5.3	12.9	-10.2	-25.3	-31.9
Housing Starts (000's of units, AR)	1702	1261	1122	950	903	870	961
Change in Business Inventories (\$72, billions)	-16.1	-20.3	3.4	-4.4	-15.4	4.8	16.5
Net Exports (\$72, billions)	23.5	27.2	27.5	35.7	36.9	36.5	39.2
Real Government Purchases (% change, AR)	-8.5	12.0	8.4	-5.3	-2.9	7.0	3.6
Fixed-weighted Price Index (% change, AR)	3.2	4.9	5.9	4.1	4.8	8.5	8.9
<u>Corporate Profits (% change)</u>							
Before-tax (current production)	12.6	-1.0	7.0	-1.1	-14.6	-4.8	4.3
After-tax (current production)	12.2	1.2	5.3	-0.4	-10.6	1.4	4.5
Before-tax (book)	1.3	-2.4	5.0	0.0	-20.7	-7.2	3.5
After-tax (book)	-4.5	-1.3	2.6	1.1	-20.6	-3.9	3.1